

April 21, 2020

To: Mayor and Members of City Council

From: Paula Boggs Muething, City Manager *CB F-13M*

2021014751

Subject: **LEED CRA TAX EXEMPTION FOR MELROSE IHNGC LP**

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Attached is an Emergency Ordinance captioned as follows:

**APPROVING AND AUTHORIZING** the City Manager to execute a *Community Reinvestment Area Tax Exemption Agreement (LEED or Living Building Challenge)* with Melrose IHNGC Limited Partnership, thereby authorizing a 15-year tax exemption for 100% of the value of improvements made to real property located at 835-849 Oak Street in the Walnut Hills neighborhood of Cincinnati, in connection with the construction of a new building comprised of approximately 595 square feet of office space and approximately 26,204 square feet of residential space, consisting of 26 affordable residential rental units, which construction shall be completed in compliance with Leadership in Energy and Environmental Design Silver, Gold or Platinum standards or Living Building Challenge standards, at a total construction cost of approximately \$3,592,000.

#### **BACKGROUND/CURRENT CONDITIONS**

Melrose IHNGC Limited Partnership will construct Melrose Place, a 26-unit permanent supportive housing project at 835-849 Oak Street in the Walnut Hills neighborhood. The project will activate seven (7) City-owned lots at 835-847 Oak Street that have been vacant for at least 20 years and will be transferred to the developer. Additionally, the project will require the demolition of one blighted residential structure at 849 Oak, which is controlled by the developer and has been vacated and all residents relocated. In September 2020, the City awarded the project a loan of \$400,000 in HOME funding from the City's Notice of Funding Availability (NOFA) program. Ohio Housing Finance Agency (OHFA) awarded the project Low Income Housing Tax Credits (LIHTC) in 2020.

## **DEVELOPER INFORMATION**

Melrose IHNGC LP is owned by Interfaith Hospitality Network of Greater Cincinnati (IHNGC), a Cincinnati-based social service organization that provides support for families experiencing homelessness. IHNGC has served the Cincinnati community since 1991, but this is their first project as developer. IHNGC is partnering with co-developer the Model Group, a Cincinnati-based real estate developer, throughout construction. Model Group has completed numerous projects as developer and general contractor, including over 50 LIHTC projects such as Cincinnati Scholar House and Carrie's Place.

## **PROJECT DESCRIPTION**

Melrose Place will consist of the new construction of a four-story residential structure containing 26 units of permanent supportive housing. This project is unique in that it will target full families experiencing homelessness that have a household member with a disabling condition. In 2019, 65 families were qualified for permanent supportive housing but only 12 were placed in specialized units due to lack of availability. Melrose Place will increase the City's supply of these much needed permanent supportive housing units and IHNGC will offer all residents wraparound social services, such as on-site mental health counseling, case management services, and specialized support for children to help families stabilize and thrive in permanent housing.

The building will be constructed to LEED Gold specifications and include counseling offices, an all-purpose room, and parking on site. The 26 total units will include three (3) one-bedrooms, 13 two-bedrooms, and ten (10) three-bedrooms. These larger unit sizes will allow full families that are experiencing homelessness to stay together. Three (3) units will be affordable at 30% Area Median Income (AMI), five (5) at 50% AMI, and 18 at 60% AMI. Total rents are projected at \$775 for one-bedrooms, \$911 for two-bedrooms, and \$1,185 for three-bedrooms, but all units' rents will be subsidized by the Department of Housing and Urban Development so that tenants will pay no more than 30% of their household income on housing costs.

Total project cost is projected at \$6.3 million with construction cost at approximately \$3.6 million. Melrose Place will attract \$5.5 million in LIHTC equity, a \$300,000 Housing Development Assistance Program grant from OHFA, and approximately \$110,000 in developer equity.

Construction will be completed in 16 months and will support the creation of 90 temporary construction jobs with a total annual payroll of \$1.7 million. The project will create at least two (2) permanent on-site jobs in case management and facilities management generating \$117,823 in annual payroll.

Melrose Place achieves Plan Cincinnati's Live Goal 3 (pages 164-178) by providing a full spectrum of housing options and improving housing quality and affordability.

Additionally, the project accomplishes Plan Cincinnati's Live Goal 2 (pages 156-163) of creating a more livable community by activating property that has long been vacant in the Walnut Hills neighborhood.

On February 7, 2020, the Walnut Hills Area Council voted in support of this project. On August 7, 2020, City Planning Commission approved the sale of the City-owned property at 835-847 Oak Street and on September 16, 2020, City Council approved the sale of the property to Melrose IHNGC LP.

**PROPOSED INCENTIVE**

DCED is recommending a 15-year, net 52% CRA tax exemption based on the project's LEED Gold Certification level, 15% VTICA contribution, and financial underwriting. Pursuant to the Commercial CRA policy established by City Council, this project scored 14 points on the Neighborhood CRA scorecard as indicated below, which would merit a 15-year net 52% CRA Tax Abatement:

"But For" Analysis (0-3 points) *	3
LEED (0-6 points)	3
Neighborhood VTICA (1 point for contributions over 1% but less than 15% and 8 points for contributions of 15% or more)	8
<b>TOTAL</b>	<b>14</b>

\* "But For" Analysis Explanation: 3 points were awarded for the following reasons:

- Due to the deep affordability requirements and increased operating expenses, the project will operate on a thin margin over its 15-year LIHTC compliance period.
- Without the CRA tax abatement, cash flow will be greatly reduced, and the project may not sustain operating expenses required for supportive services.

<b>SUMMARY</b>	
<b>Incentive Value</b>	
Annual Net Abatement (Savings to Developer)	\$12,290
<b>Total Term Net Abatement (Savings to Developer)</b>	<b>\$184,346</b>
<b>City's Portion of Property Taxes Forgone</b>	<b>\$45,754</b>
<b>Public Benefit</b>	
CPS PILOT	
Annual CPS Pilot	\$7,799
<b>Total Term CPS PILOT</b>	<b>\$116,989</b>

VTICA	
Annual VTICA	\$3,545
Total Term VTICA PILOT	\$53,177
Income Tax (Max)	\$85,274
New Permanent Jobs	2
<b>Total Public Benefit (CPS PILOT/VTICA PILOT/Income Tax)</b>	<b>\$255,440</b>
Affordable Housing Units (at or below 60% AMI)	26
Total Public Benefit ROI	\$1.39
City's ROI	\$5.58

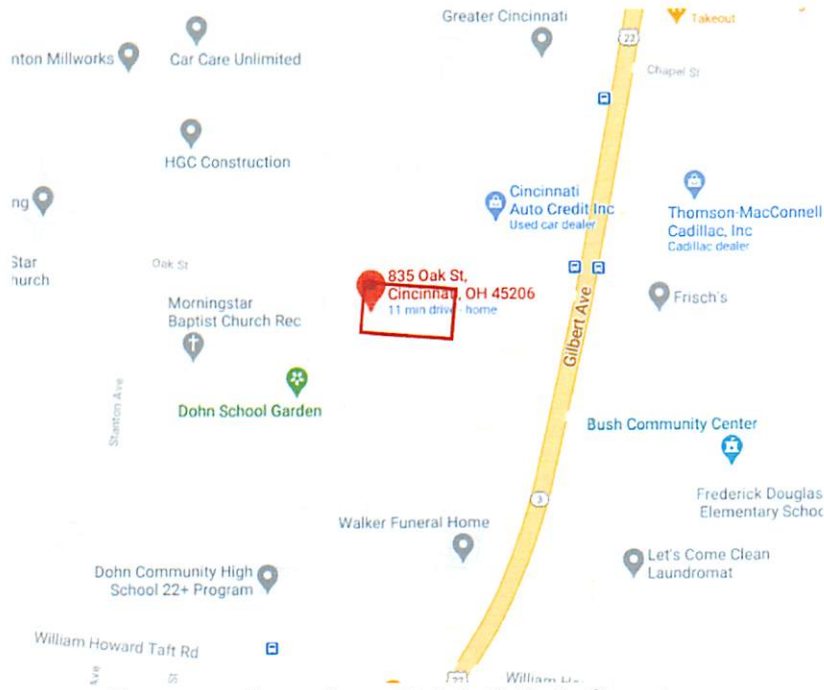
**RECOMMENDATION**

The Administration recommends approval of this Emergency Ordinance. This Ordinance is an emergency in nature so that the developer can adhere to a strict construction timeline, which will allow units to be placed in service by LIHTC deadlines.

Attachment: A. Property location and photographs

Copy: Markiea L. Carter, Director, Department of Community & Economic Development *MLC*

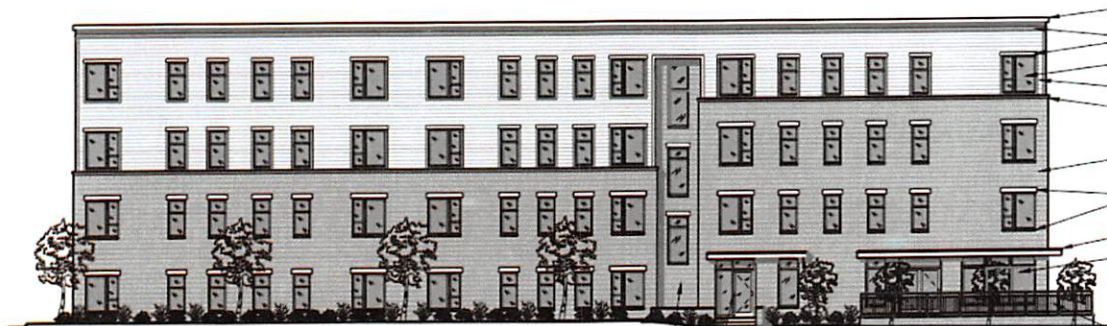
**Attachment A: Location and Photographs**



*Property Location, 835-849 Oak Street*



*Existing Site*



*Development Rendering*